

# Audit

# Report



OFFICE OF THE INSPECTOR GENERAL

**CERTIFICATION AND PAYMENT PROCEDURES AT  
THE NAVY COMPUTER AND TELECOMMUNICATIONS  
STATION, SAN DIEGO**

Report No. 96-011

October 20, 1995

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**Department of Defense**

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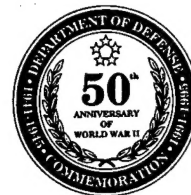
### **Acronyms**

APTS  
CATS  
NCTC  
NCTS

Activities Providing Telephone Service  
Consolidated Area Telephone System  
Naval Computer and Telecommunications Command  
Naval Computer and Telecommunications Station



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884**



October 20, 1995

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)**

**SUBJECT: Report on the Certification and Payment Procedures at the Navy Computer  
and Telecommunications Station, San Diego  
(Report No. 96-011)**

This report is provided for your information and use. Management comments on a draft of this report were considered in preparing the final report. We performed the audit in response to a complaint to the Defense Hotline.

Comments on this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Robert M. Murrell, Audit Program Director, at (703) 604-9507 (DSN 664-9507) or Ms. Consolacion L. Loflin, Acting Audit Project Manager, at (703) 604-9509 (DSN 664-9509). The distribution of this report is listed in Appendix F. The audit team members are listed inside the back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## **Office of the Inspector General, DoD**

**Report No. 96-011**  
Project No. 5RD-8006.01

**October 20, 1995**

### **Certification and Payment Procedures at the Navy Computer and Telecommunications Station, San Diego**

#### **Executive Summary**

**Introduction.** This report is being issued to draw management attention to the need for corrective actions before telecommunications services were transferred in October 1995. The audit covered an allegation to the Defense Hotline, Case No. 94L-57899, Supplement 1, that the Navy Computer and Telecommunications Station (NCTS) San Diego, San Diego, California, was not properly verifying and paying telephone bills and that the Prompt Payment Act has been violated. The details on other allegations in the Defense Hotline complaint and the results of our audit pertaining to each of those allegations will be discussed in a separate report, "Planning for Telecommunications Equipment and Services at Naval Computer and Telecommunications Station San Diego," Project No. 5RD-8006.03.

**Objective.** Our objective was to determine whether NCTS San Diego base communications billings were accurate and whether payment procedures were adequate. We also evaluated the NCTS San Diego management control program as it related to the audit objective.

**Audit Results.** Telecommunications services for the Consolidated Area Telephone Systems, San Diego and San Francisco; the Naval Air Station Fallon, Nevada; and the Naval Construction Battalion Center, Port Hueneme, were transferring to NCTS San Diego in October 1995, even though NCTS San Diego does not have adequate procedures for certifying and paying telecommunications bills. Consequently, the Navy has no assurance that payments will be accurate or that the amounts disbursed will be for actual services rendered. In addition, NCTS San Diego has not paid bills in accordance with the Prompt Payment Act. The late payment charges paid to the local exchange carrier approximated \$121,780 since 1993, and assessed late penalties for outstanding balances as of July 1995, totaled about \$60,430. Recommendations in this report, if implemented, will improve NCTS procedures for certifying and paying telecommunications bills. Appendix D summarizes the potential benefits of the audit.

**Summary of Recommendations.** We recommend that the Chief, Naval Operations (N6), Director, Space and Electronic Warfare, delay the functional transfers until procedures for certifying telecommunications bills for payment and inventory of equipment and services have been established or propose an alternative solution; revise Navy guidance to include detailed procedures for the certification and payment of telecommunications bills and the establishment of an inventory data base for telecommunications equipment and services; and request that the Auditor General, Department of the Navy, audit newly established procedures for processing telecommunications bills and the inventories of telecommunications equipment and services at Navy activities before the functional transfer to NCTS San Diego.

We also recommend implementing interim procedures for proper certification and payment of vendor bills; resolving outstanding balances; developing inventory data bases; and reviewing and revalidating requirements for telecommunications equipment services at the functionally transferred activities.

**Management Comments.** The Navy concurred with the finding and recommendations with the exception of delaying functional transfers scheduled for October 1, 1995. The Navy has taken specific actions to resolve discrepancies in bill paying procedures and has agreed to revise current management controls for base communications throughout the Navy. The Navy formed an Executive Steering Committee comprised of officials from the offices of the Headquarters, Marine Corps; Space and Electronic Warfare; Assistant Secretary of the Navy (Command, Control, Communications and Intelligence); Navy Computer and Telecommunications Command; and Defense Information Systems Agency to determine efficiencies in information transfer costs while meeting warfighter needs. The Navy also stated that NCTS San Diego initiated a certification program that verifies the legitimacy of vendor bills, and the program resulted in cost avoidances of \$1.5 million. The complete text of management comments is in Part III.

**Audit Response.** Although the Navy nonconcurred with our recommendation to delay the functional transfers scheduled for October 1, 1995, the Navy's planned actions will correct the bill paying procedural problems at the Navy Computer and Telecommunications Station, San Diego. Further several major Navy commands will participate in an Executive Steering Committee to address the efficiency and effectiveness of planned functional transfers. Consequently, we believe that the Navy was responsive to the audit finding and recommendations. Therefore, no additional comments are required.

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## **Part I - Audit Results**

### Audit Background

The audit covered one of three allegations in Defense Hotline Case No. 94L-57899, Supplement 1. The complaint alleged that Naval Computer and Telecommunications Station San Diego, San Diego, California, base communications billing and payment procedures were inadequate. Details on the allegation and audit result are in Appendix B. The details on other allegations in the Defense Hotline complaint and the results of our audit pertaining to each of those allegations will be discussed in a separate report, "Planning for Telecommunications Equipment and Services at Naval Computer and Telecommunications Station San Diego," Project No. 5RD-8006.03.

**Consolidation Initiative.** In 1991, the Chief, Office of Naval Operations, announced the initiative to consolidate all Activities Providing Telephone Service (APTS) within the Navy Computer and Telecommunications Command (NCTC). The Navy objectives are to establish a dedicated Navy advocate for intrabase communications services and management and to develop a broad-based field organization to directly support the current and future Navy intrabase communications requirements. The initiative will support the Navy goal of establishing a single management center at the base level that will provide fully integrated information services in support of both the fleet and the shore establishments.

**APTS Functional Transfer Plan.** The Navy plans to transfer the function of the existing base level APTS and their associated resources. About 148 Navy and Marine Corps APTS in the Continental United States were identified to transfer to four NCTS Regional Coordinators (Western Region, Southwestern Region, Northeastern Region, and Southeastern Region). The former APTS will then become new base communications functions within the four NCTS Regional Coordinators to serve as the focal points for the Chief of Naval Operations-sponsored communications programs. The NCTS mission was to plan, procure, implement, and manage telecommunications systems and facilities for the Naval and Marine Corps APTS.

**Southwestern Region.** As the Southwestern Regional Coordinator, NCTS San Diego will provide management for the day-to-day operations and will provide technical and policy guidance to APTS facilities in Alaska, Arizona, California, Colorado, Idaho, Montana, Utah, Nevada, New Mexico, Oregon, Washington, and Wyoming. In California, NCTS San Diego will provide telecommunications bill-paying services for a total of 11 Navy APTS transferred under the regional consolidation. See Appendix C for the list of organizations in the Southwestern Regional consolidation.



## **Audit Objectives**

Our objective was to determine whether billings for NCTS San Diego base communications were accurate and whether payment procedures were adequate. We also evaluated the NCTS San Diego management control program as it related to the audit objective.

See Appendix A for a discussion of the audit scope and methodology, the results of the review of the management control program, and the prior audit coverage related to the audit objectives. Appendix D lists the potential benefits resulting from the audit.

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## **Certification of Telecommunications Bills for Payment**

The telecommunications services for the Consolidated Area Telephone Systems (CATS), San Diego and San Francisco; the Naval Air Station Fallon, Nevada; and the Naval Construction Battalion Center, Port Hueneme, are transferring to NCTS San Diego in October 1995, even though NCTS San Diego does not have adequate procedures for certifying and paying telecommunications bills. Consequently, the Navy has no assurance that payments will be accurate or that the amounts disbursed will be for actual services rendered. In addition, NCTS San Diego has not paid bills in accordance with the Prompt Payment Act. Late payment charges paid to the local exchange carrier totaled about \$121,780, and assessed late payment penalties for outstanding balances, accruing since 1993, totaled about \$60,430.

## **Guidance on Federal and DoD Payment Policies**

United States Code, title 31, section 3528(a), requires that all Federal disbursements be certified as being accurate, proper, and legal. The Prompt Payment Act, Public Law 100-496 (as amended), was the basis for the Office of Management and Budget Circular No. A-125, December 12, 1989, which prescribes policies and procedures to be followed by Executive departments and agencies in paying for property and services acquired under Federal contracts. The Circular requires agencies to pay interest penalties automatically, without contractors having to request funds available for the administration of the program for which the penalty was incurred. Temporary unavailability of funds does not relieve agencies of the obligation to pay interest penalties.

DoD Directive 4640.13, "Management of Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991, prescribes DoD policy for the management of base and long-haul telecommunications equipment and services. DoD Instruction 4640.14, "Base and Long-Haul Telecommunications Equipment and Services," December 6, 1991, contains detailed instructions for implementing DoD policy regarding management of telecommunications. DoD established policy, assigned responsibilities, and prescribed procedures to ensure the effective, efficient, and economical use of base and long-haul telecommunications and services. The policy requires the heads of the DoD Components to establish a management system, compatible with the procedures and inventory data base system established in accordance with Instruction 4640.13. DoD policy requires conducting periodic market surveys to ensure that the most economical means are selected for satisfying all base and long-haul telecommunications requirements, consistent with applicable law and policy guidance. Further, Instruction 4640.14 requires the heads of the DoD Components to promptly reconcile all base and long-haul telecommunications invoices to the telecommunications services inventories and authorized acquisition documents before authorizing payment to verify that the

DoD pays only for services received. To the maximum extent possible, the reconciliation should include the use of automated billing systems with the telecommunications service providers. The policy also requires DoD Components to discontinue leases for telecommunications equipment or services for which a bona fide need no longer exists. The DoD Components should ensure that Government-owned telecommunications equipment, systems, and facilities are effectively, economically, and efficiently maintained; accurately accounted for on existing inventory systems; biennially reviewed and revalidated; and reallocated to other uses when found to be no longer needed in a current configuration.

### **NCTS San Diego Bill-Paying Process**

NCTS San Diego is not prepared to provide adequate telecommunications bill-paying services for the functional consolidation of the 11 APTS in the Southwestern Region. Although four APTS functionally transferred earlier in 1993 and 1994, problems remain in the ability of NCTS San Diego to verify equipment and service charges and to pay telecommunications bills promptly. Those deficiencies cause us to question the advisability of transferring the remaining seven APTS functions, including the large telecommunication functions for CATS, San Diego and San Francisco.

### **Verification Process at NCTS San Diego**

Although the functional transfer of four APTS has already occurred, problems remain in accounting for telecommunications contract records, equipment, and services transferred to NCTS San Diego. The following have directly affected the ability of NCTS San Diego to perform adequate verification of telecommunications bills.

- o Communication Service Authorizations\* and associated contract files obtained from the transferred APTS facilities were incomplete because records were lost, not available, or invalid.
- o The four transferred APTS facilities as well as NCTS San Diego have not established adequate management controls for proper accountability of telecommunications equipment and services.
- o The four APTS did not have inventories of equipment and services used by their facilities.

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\*A Communications Service Authorization constitutes a binding contractual obligation and is an order for telecommunications services issued against either a basic agreement or a contract.

## **Certification of Telecommunications Bills for Payment**

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- o NCTS San Diego did not develop an inventory data base of the equipment and services of the four APTS after transfer of their functional responsibilities.

- o CATS San Francisco has not performed an inventory of telecommunications equipment and services and has not assessed the need for a 24-hour maintenance contract for telecommunications equipment.

- o CATS San Diego began creating a new inventory data base, initiating reentry of about 125,000 Communications Service Authorizations. However, CATS San Diego has not yet verified the accuracy of the inventory.

- o NCTS San Diego is certifying toll charges as accurate and proper for payment although those toll charges have not been verified as charges for official calls. United States Code, title 31, section 1348, requires a certification of toll call charges.

Under those conditions, NCTS San Diego is certifying bills for payment, even though the billing clerks cannot adequately verify local service charges, equipment charges, other telecommunications charges, and credits. Further, NCTS could not verify the equipment and services listed in each Communications Service Authorization to a validated inventory. Therefore, billing clerks cannot match bills, contracts, and the inventory of equipment and services to certify that payments are accurate, proper, and legal, as required by United States Code, title 31, section 3528(a). Further, the inability to perform adequate verification of telecommunication bills has also affected the payment of bills, causing assessments of late payment penalties.

## **Prompt Payment of Telecommunications Bills**

Since the transfer of four APTS in 1993 and 1994, NCTS San Diego has not made timely payments of vendor bills. CATS San Diego, scheduled to transfer in October 1995, also has been delinquent in promptly paying telecommunications bills.

- o As of June 1995, NCTS San Diego had past due payments totaling about \$453,000 (for accounts with outstanding balances of \$1,000 or more).

- o As of July 1995, NCTS San Diego was still paying telecommunication bills late, about 2 to 5 months past the required 30-day payment period.

- o NCTS San Diego billing clerks did not stamp vendor bills with the day of receipt to enable proper management of the 30-day payment requirement imposed by the Prompt Payment Act .

- o CATS San Diego unpaid telecommunications bills totaled about \$241,000 as of July 1995. A total of 37 bills were outstanding, of which 14, totaling \$125,000, represent arrears that appear to be due since 1986.

## **Certification of Telecommunications Bills for Payment**

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Consequently, since October 1993, NCTS San Diego paid late payment charges of about \$121,780. Further, as of July 1995, late payment charges of \$60,430 have accrued on outstanding balances of vendor bills unpaid for more than 30 days.

### **NCTC Guidance on Telecommunications**

As a headquarters command, NCTC is tasked with the oversight of the management of base telecommunications for Navy shore establishments and is responsible for providing management and procedural guidance. NCTC is also responsible for providing guidance regarding base telecommunications to the Regional Coordinator for interpreting and implementing DoD and Navy policies, rules, and regulations. However, NCTC has not provided adequate guidance for effective management of telecommunications equipment and services because the Naval Base Telecommunications Manual contained limited guidance on billing and payment.

**Naval Base Telecommunications Manual.** The Naval Base Telecommunications Manual is not adequate to ensure the effective day-to-day management of certification and payment for telecommunications equipment and services or to ensure compliance with disbursement procedures prescribed by the Prompt Payment Act. Although the consolidation of the APTS continues, the Naval Base Telecommunications Manual does not provide uniform standards, such as verifying local service and equipment charges and verifying charges for long-distance calls and other charges and credits for processing telephone bills.

### **Summary**

Although the Navy goal is to standardize telecommunications functions of all its organizations, we believe that the consolidation of the APTS at NCTS San Diego will not achieve that goal efficiently and effectively until the following actions are done:

- o a telecommunications equipment and services inventory data base is developed and validated,
- o contract files are complete and current,
- o an effective bill-paying process is established before the APTS are functionally transferred to NCTS San Diego, and
- o standardized procedures are prepared by the Navy for certification and payment of telecommunications billings to verify compliance with the Prompt Payment Act.

## **Recommendations, Management Comments, and Audit Response**

1. We recommend that the Chief, Naval Operations (N6), Director, Space and Electronic Warfare:

a. Delay the functional transfers of Navy Activities Providing Telephone Service to the Navy Computer and Telecommunications Station San Diego until procedures have been established at Naval Computer Telecommunications Station San Diego to properly certify telecommunications bills for payment, to establish an inventory of equipment and services, and to permit prompt payment of vendor bills or propose an alternative solution.

b. Revise the Navy Base Telecommunications Manual to include provisions for certification and payment of telecommunication bills. The Manual should include procedures for maintaining an inventory data base for telecommunications equipment and services, Communications Service Authorizations, and other contracts. The Manual should also include detailed procedures for developing and implementing a Communications Service Authorization and other contracts; for processing telecommunications bills; and for certifying local service and equipment charges, long-distance charges, and other charges and credits to verify compliance with the Prompt Payment Act.

c. Request that the Auditor General, Department of the Navy, audit procedures for processing telecommunications bills and the establishment of inventories of telecommunications equipment and services at the Naval Air Station Fallon, Nevada; Naval Construction Battalion Command, Port Hueneme; Naval Weapons Station China Lake; Naval Weapons Station, Seal Beach; and Naval Warfare Air Command, before the functional transfer to the Navy Computer and Telecommunications Station San Diego, to verify that certification and payments are in compliance with applicable laws.

2. We recommend that the Commander, Navy Computer and Telecommunications Station San Diego:

a. Implement interim procedures for certifying telecommunication bills and for promptly paying vendor bills, pending issue of the revised Navy Base Telecommunications Manual.

b. Resolve outstanding balances of unpaid vendor bills to minimize late payment penalties.

c. Develop for each activity providing telephone service an inventory data base that has a capability to trace Communications Service Authorizations, tenants, and locations of equipment.

d. Review and revalidate the need for telecommunications equipment and services in accordance with DoD Directive 4640.13, "Managing Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991, at the functionally transferred Activities Providing Telephone Service.

## Certification of Telecommunications Bills for Payment

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**Management Comments.** The Navy concurred with the finding and recommendations with the exception of delaying functional transfers scheduled for October 1, 1995. The Navy has taken specific actions to resolve discrepancies in bill-paying procedures and to revise current management controls for base communications throughout the Navy. An Executive Steering Committee comprised of officials from the offices of the Headquarters, Marine Corps; Space and Electronic Warfare; Assistant Secretary of the Navy (Command, Control, Communications and Intelligence); Navy Computer and Telecommunications Command; and Defense Information Systems Agency has been formed to determine efficiencies in information transfer costs while meeting warfighter needs. The complete text of management comments is in Part III.

**Audit Response.** Although the Navy did not concur with the recommendation to delay the functional transfer of CATS San Diego and San Francisco to NCTS San Diego, the planned actions to establish interim certification procedures, to update the Navy Base Communications Manual to include policies on invoice certifications, and to develop an accurate inventory data base of leased and Government-owned equipment and services meet the intent of the audit recommendations. In addition, the planned steering group should provide high-level management oversight of functional transfer efficiencies. Therefore, no additional comments are required.

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## **Part II - Additional Information**

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## **Appendix A. Scope and Methodology**

### **Scope and Methodology**

We reviewed the adequacy, efficiency, and effectiveness of base communications billing and payment procedures, and we analyzed the corresponding Navy and DoD regulations and manuals. We reviewed the NCTS San Diego management control program as it related to the audit objective. We interviewed officials of the Navy Computer and Telecommunications Station, Navy Public Works Center, Navy Facilities and Engineering Command, and the Navy Computer and Telecommunications Command at San Francisco, Monterey, Long Beach, El Centro, and San Diego, California; and Washington, D.C. We interviewed activity finance and accounting officials at the Naval Postgraduate School, Monterey; Naval Shipyard, Long Beach; and Naval Air Station, El Centro. We also interviewed an official from the Local Exchange Carrier at San Diego. We reviewed telecommunications billings and payments from October 1993 through July 1995. We obtained copies of statements with outstanding balances of \$1,000 or more and analyzed those statements to assess late payment charges. Statistical sampling procedures were not used.

This economy and efficiency audit was made from July through August 1995 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. The audit included such tests of management controls as were considered necessary. We did not rely on computer-processed data to achieve the audit objectives. The organizations visited or contacted during the audit are listed in Appendix E.

### **Management Control Program**

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of Management Control Program.** We reviewed the NCTS San Diego management controls as they relate to the billing and payment of telecommunications equipment and services. Specifically, we reviewed NCTS San Diego management controls over telephone bill certification and payment processes.

**Adequacy of Management Controls.** We identified material management control weaknesses for NCTS San Diego as defined by DoD Directive 5010.38. NCTS San Diego management controls for billing and payment of telecommunications equipment and services were not adequate to ensure that disbursements of Federal funds are accurate and proper and that bills are paid in a timely manner. Recommendations 1. and 2., if implemented, will improve billing and payment procedures and could result in funds put to better use. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Assistant Secretary of Navy (Financial Management and Comptroller).

**Adequacy of Management's Self-Evaluation.** We could not assess management's self evaluation of management controls because NCTC has not yet provided its self-evaluation to NCTS San Diego (performed in June 1995).

### **Prior Audits and Other Reviews**

No audit work on the audit subject has been performed within the last 5 years.

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## **Appendix B. Allegation and Audit Result**

The complaint to the Defense Hotline, Case No. 94L-57899, Supplement 1, consisted of three allegations, one of which is discussed in this report.

**Allegation.** NCTS San Diego base communications billing and payment procedures were inadequate, especially in view of the planned transfer of telecommunications functions to NCTS San Diego.

**Audit Result.** The allegation was substantiated. NCTS San Diego does not have adequate procedures for certifying and paying telecommunications bills. Consequently, the Navy has no assurance that payments will be accurate or that the amounts disbursed will be for actual services rendered. Additionally, NCTS San Diego has not paid bills in accordance with the Prompt Payment Act. Details are in the Finding in Part I of the report.

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## **Appendix C. Organizations Included in the Functional Transfer of Telecommunication Services**

<u>Organization</u>	<u>Date of Functional Transfer</u>
Navy Postgraduate School, Monterey, CA	October 1993
Naval Station, Long Beach, CA	October 1993
Naval Air Station, Lemoore, CA	October 1993
Naval Air Station, El Centro, CA	October 1994
Consolidated Area Telephone System, San Diego, CA	October 1995
Consolidated Area Telephone System, San Francisco, CA	October 1995
Naval Construction Battalion Command, Port Hueneme, CA	October 1995
Naval Air Station, Fallon, NV	October 1995
Naval Air Warfare Center, Point Magu, CA	Unknown
Naval Weapons Station, China Lake, CA	Unknown
Naval Weapons Station, Seal Beach, CA	Unknown

## Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.a.	Program Results, Compliance, and Management Controls. Improves effectiveness and efficiency by delaying functional transfer of APTS to NCTS San Diego.	Undeterminable. The monetary benefits are undeterminable because the extent of program efficiencies that may result from delaying the functional transfer have not yet been determined.
1.b.	Program Results, Compliance, and Management Controls. Improves effectiveness and efficiency by ensuring that the Navy Base Telecommunications Manual includes provisions for certification and payment of telecommunications bills and procedures for maintaining an inventory data base for telecommunications equipment and services.	Nonmonetary.
1.c.	Program Results, Compliance, and Management Controls. Increases effectiveness and efficiency by having the Auditor General, Department of the Navy, audit the procedures for processing telecommunications bills and by establishing inventories of telecommunications equipment and services before the functional transfer of APTS to NCTS San Diego.	Undeterminable. The monetary benefits are undeterminable until the audit has been performed.

## Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
2.a.	Program Results, Compliance, and Management Controls. Increases effectiveness and efficiency by implementing procedures for certifying telecommunications bills and promptly paying vendor bills.	Monetary. In response to the draft report, the Navy confirmed cost avoidances of more than \$1.5 million.
2.b.	Program Results, Compliance, and Management Controls. Increases effectiveness and efficiency by resolving outstanding balances of unpaid vendor bills to minimize late payment penalties.	Undeterminable. The monetary benefits cannot be determined until NCTS San Diego has resolved outstanding balances.
2.c.	Program Results, Compliance, and Management Controls. Increases effectiveness and efficiency by developing an inventory data base for each APTS that has a capability to trace Communications Service Authorizations, tenants, and location of equipment.	Nonmonetary.
2.d.	Program Results, Compliance, and Management Controls. Increases effectiveness and efficiency by reviewing and revalidating requirements for telecommunications equipment and services located at the functionally transferred APTS.	Undeterminable. The monetary benefits cannot be determined until review and revalidation has been performed.

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## **Appendix E. Organizations Visited or Contacted**

### **Department of the Navy**

Office of the Chief of Naval Operations, Washington, DC  
Naval Post Graduate School, Monterey, CA  
Headquarters, Naval Facilities Engineering Command, Alexandria, VA  
Naval Public Works Center, San Diego, CA  
Consolidated Area Telephone Office, San Diego, CA  
Naval Public Works Center, San Francisco, CA  
Consolidated Area Telephone Office, San Francisco, CA  
Headquarters, Naval Computer and Telecommunications Command, Washington, DC  
Naval Computer and Telecommunications Station, San Diego, CA  
Headquarters, Naval Air Systems Command, Washington, DC  
Naval Air Station, El Centro, CA  
Headquarters, Naval Sea Systems Command, Washington, DC  
Naval Shipyard, Long Beach, CA



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## **Appendix F. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Command, Control, Communications and Intelligence)  
Assistant Secretary of Defense (Public Affairs)  
Director, Defense Logistics Studies Information Exchange

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy  
Office of the Chief of Naval Operations (N6), Director, Navy Space and Electronic Warfare  
Commander, Navy Computer and Telecommunications Command  
Commander, Navy Computer and Telecommunications Station, San Diego  
Commander, Naval Facilities Engineering Command

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Information Systems Agency  
Director, Defense Logistics Agency  
Director, National Security Agency  
Inspector General, National Security Agency

### **Non-Defense Federal Organizations**

Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office

## **Other Defense Organizations (cont'd)**

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on National Security, Committee on Appropriations
- House Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
- House Committee on National Security

## **Part III - Management Comments**

# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
RESEARCH, DEVELOPMENT AND ACQUISITION  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000

OCT 5 1995

## MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: QUICK-REACTION REPORT ON THE CERTIFICATION AND PAYMENT  
PROCEDURES AT THE NAVY COMPUTER AND TELECOMMUNICATIONS  
STATION, SAN DIEGO (PROJECT NO. 5RD-8006.01)- ACTION  
MEMORANDUM

Ref: (a) DODIG Memo of 20 Sep 95

Encl: (1) DON Response to Draft Audit Report

I am responding to the draft audit report (a) forwarded by your office concerning the evaluation of Navy Computer and Telecommunications Station, San Diego.

The Department of the Navy response is provided at enclosure (1). We agree with the draft report findings and recommendations with the exception of delaying functional transfers scheduled for 1 October 1995. As outlined in the enclosed comments, the Department has taken specific actions to resolve bill payment procedure discrepancies as well as revise current management controls for Base Communications Offices throughout the Navy. To this end, an Executive Steering Committee comprised of HQMC, SPAWAR, ASN C3I, CNCTC, and DISA has been formed to find efficiencies in information transfer costs while meeting warfighter needs.

J. P. DAVIDSON  
Rear Admiral, SC, USN  
Principal Assistant for  
Information Resources Management

Copy to:  
NAVINGEN  
Office of Financial Operations (FMO-13)  
NISMC  
CNO (N6)  
COMNAVCOMTELCOM

Department of the Navy Response

to

DODIG Draft Report of September 20, 1995

on

Quick-Reaction Report on the Certification and Payment Procedures at the Navy Computer and Telecommunications Station, San Diego  
(Project No. 5RD-8006.01)

Finding:

Telecommunications services for the Consolidated Area Telephone System, San Diego and San Francisco; the Naval Air Station Fallon, Nevada; and the Naval Construction Battalion Center, Port Hueneme, California, are transferring to NCTS San Diego in October 1995, even though NCTS San Diego does not have adequate procedures for certifying and paying telecommunications bills. Consequently, the Navy has no assurance that payments will be accurate or that the amounts disbursed will be for actual services rendered. In addition, NCTS San Diego has not paid bills in accordance with the Prompt Payment Act. The late payment charges paid to the local exchange carrier approximated \$121,780, and assessed late penalties for outstanding balances, accruing since 1993, totaled about \$60,430.

Recommendation 1:

We recommend that the Chief of Naval Operations (N6), Director, Space and Electronic Warfare:

- a. Delay the functional transfers of Navy Activities Providing Telephone Service to the Navy Computer and Telecommunications Station San Diego, scheduled for October 1, 1995, until procedures have been established at Naval Computer and Telecommunications Station San Diego to properly certify telecommunications bills for payment, to establish an inventory of equipment and services, and to permit prompt payment of vendor bills or propose an alternative solution.

Enclosure 1

### DON Position:

Non-concur with recommendation to delay functional transfers of CATS San Diego and CATS San Francisco. The transfers of the Base Communications Office (BCO)(formally Activities Providing Telephone Service) for the Consolidated Area Telephone System (CATS) San Diego and San Francisco were effective 1 October 1995. A Navy Comptroller budget base transfer of BCO/CATS resources (FTE and G&A and production overhead) between Naval Facilities Engineering Command budget and Naval Computer and Telecommunications Command budget occurred in Fiscal Year 1994.

Concur with delay in functional transfers of BCOs at Naval Air Station Fallon and Naval Construction Battalion Center Port Hueneme. Although NCTS San Diego is prepared to assume operational control of these activities, neither the functional transfer plan nor the budget base transfer exhibits are complete. Functional transfers of Fallon and Port Hueneme have been postponed until October 1996.

b. Revise the Navy Base Telecommunications Manual to include provisions for certification bills. The Manual should include procedures for maintaining an inventory data base for telecommunications equipment and services, Communications Services Authorizations (CSAs), and other contracts. The Manual should also include detailed procedures for developing and implementing a Communications Service Authorization and other contracts; for processing telecommunications bills; and for certifying local service and equipment charges, long-distance statements, and other charges and credits to verify compliance with the Prompt Payment Act.

### DON Position:

Concur. Commander, Naval Computer and Telecommunications Command, updates the Navy Base Communications Manual. The Navy Computer and Telecommunications Command Regional Coordinators have been tasked to review the Manual and submit comments by November 1995. In addition to this revision, members of the Base-Level Communications Quality Improvement Board are in the process of developing procedures for processing CSAs, establishing and maintaining an inventory of all telecommunication equipment and services (leased and government-leased), invoice certification and validation, and maintenance on existing contracts. These procedures will be incorporated into the January 1996 revision of the Navy Base Telecommunications Manual.

c. Request the Auditor General, Department of the Navy, audit procedures for processing telecommunications bills and the establishment of inventories of telecommunications equipment and services at the Naval Air Station Fallon, Nevada; Naval Construction Battalion Command Center, Port Hueneme; Naval Weapons Station China Lake; Naval Weapons Station Seal Beach; and Naval Warfare Air Command, before the functional transfer to the Naval Computer and Telecommunications Station San Diego, to verify certification and payments are in compliance with applicable laws.

DON Position:

Concur. Chief of Naval Operations (N6) will request an audit/review of each activity by the Auditor General, Department of the Navy and the Department of the Navy Inspector General's Office once procedures are in place.

Recommendation 2:

We recommend that the Commander, Naval Computer and Telecommunications Station San Diego:

a. Implement interim procedures for certifying telecommunications bills and for promptly paying vendor bills, pending issue of the revised Navy Base Communications Manual.

DON Position:

Concur. Navy Computer and Telecommunications Station, San Diego, continues to verify existing Communications Service Authorizations against vendor bills. The majority of billing discrepancies identified by the DODIG were inherited during the functional transfer of Long Beach Naval Shipyard activities (non-BRAC): missing and incomplete contracting documentation at both the billing office and vendors. In response, NCTS San Diego initiated a certification program that verifies the legitimacy of a vendor's bill. Their efforts have resulted in cost avoidances in excess of \$1.5 million.

b. Resolve outstanding balances of unpaid vendor bills to minimize late payment penalties.

DON Position:

Concur. When certifying documentation is available, vendor bills will be paid. San Diego will continue to question vendor bills that have no supporting contract documentation.

c. Develop for each activity providing telephone service an inventory data base that has a capability to trace Communications Service Authorizations, tenants, and locations of equipment.

DON Position:

Concur. The Navy Computer and Telecommunications Command Quality Improvement Board has established a Process Improvement Team, chaired by Chief of Naval Operations (N61C21), to develop a base communications equipment inventory data base. This data base will include leased and government-owned equipment and services, associated contract and

## Department of the Navy Comments

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Communications Service Authorization information, location of equipment, users, etc. The data base will be formatted, populated, and maintained in accordance with DOD Directives 4630.13 and 4630.14, as well as all other applicable policies and directives.

d. Review and revalidate the need for telecommunications equipment and services in accordance with DoD Directive 4630.13, "Managing Base and Long-Haul Telecommunications Equipment and Services", December 5, 1991, at the functionally transferred Activities Providing Telephone Service.

DON Position:

Concur. Once established, Navy base communications inventories will be reviewed and validated in accordance with DOD Directive 4630.13. Policies and procedures on the establishment of an inventory data base and maintenance of the database (as prescribed in DOD 4630.13 and 4630.14) will be incorporated in the Naval Base Communications Manual. Currently, the Manual directs Base Communications Officers (BCOs) to "review and revalidate, on an annual basis, all leased or government-owned services and equipment." The revised Manual will include detailed procedures that the BCO can use to review and revalidate existing base communications services and equipment.



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